UNITED
NATIONS

A

General Assembly

Distr.
GENERAL

A/AC.246/2
19 June 1995

ORIGINAL: ENGLISH

INTERGOVERNMENTAL MEETING OF EXPERTS ON
SOUTH-SOUTH COOPERATION
31 July-4 August 1995

EXPANDING SOUTH-SOUTH COOPERATION: SOME SUGGESTED ISSUES AND MODALITIES

CONTENTS

		Paragraphs	Page
I.	SUMMARY AND INTRODUCTION	1 - 4	3
II.	ISSUES IN SOUTH-SOUTH COOPERATION	5 - 15	3
	A. Agenda	5 - 6	3
	B. Learning from experience	7 - 10	4
	C. The Movement of Non-Aligned Countries and the Group of 77	11 - 12	5
	D. Dynamic and changing demands of South-South cooperation	13 - 14	6
	E. Organic growth of South-South cooperation	15	6
III.	INSTITUTIONAL ASPECTS OF SOUTH-SOUTH COOPERATION	16 - 31	7
	A. Political support	16 - 18	7
	B. National level	19 - 23	7
	C. Subregional and regional levels	24 - 27	9
	D. Global level	28 - 31	10

95-18379 (E) 190795 200795

/...

CONTENTS (continued)

		Paragraphs	Page
IV.	SUGGESTIONS FOR JOINT ACTION	32 - 52	11
	A. Responding to current issues	32 - 33	11
	B. Information and communication	34 - 37	12
	C. Global System of Trade Preferences among developing countries	38 - 40	13
	D. Services	41	13
	E. Investment	42 - 47	14
	F. Cooperation in capital markets	48 - 50	16
	G. Social sector	51 - 52	16
V.	FOLLOW-UP	53 - 60	17
	A. Role of developed countries	53 - 58	17
	B. Role of the international organizations	59 - 60	18
VI.	FUNDING	61 - 62	19

I. SUMMARY AND INTRODUCTION

1. The purpose of the present report is to assist the intergovernmental group of experts established by the General Assembly in its resolution 46/96 of 19 December 1994, inter alia to recommend substantive issues and practical modalities for expanding South-South cooperation. It is supplemented by the reports of the meeting of the High-level Committee on Technical Cooperation among Developing Countries, held in New York from 30 May to 2 June 1995 and the United Nations Conference on Trade and Development (UNCTAD) Standing Committee on Economic Cooperation among Developing Countries, held at Geneva from 19 to 23 June 1995.

2. In section II, the report draws on lessons learned from the experience gained with formal subregional and regional cooperation and integration schemes for pointers concerning strategies for promoting and managing South-South cooperation at the global level. It cautions against attempts to undertake ambitious programmes all at once, suggesting instead a gradual and progressive execution of specific activities involving groups of countries with common interests. It also emphasizes the dynamic and changing demands of South-South cooperation.

3. Institutional aspects of South-South cooperation at the national, regional and global levels are reviewed and the machineries that are in place are shown to be largely deficient. This deficiency is viewed as being one of the major causes of the poor record of achievement of South-South cooperation initiatives. Accordingly, suggestions are made for improving capacities at all levels.

4. By way of illustration, the report recommends an approach for identifying, preparing and implementing specific activities for cooperation in a cluster of sectors covering trade (including services) and investments. Finally, the report deals with the question of international support to South-South cooperation from the countries members of the Organisation for Economic Cooperation and Development (OECD) and from the international organizations, especially UNCTAD and the Special Unit for Technical Cooperation among Developing Countries of the United Nations Development Programme (UNDP).

II. ISSUES IN SOUTH-SOUTH COOPERATION

A. Agenda

5. There is no shortage of ideas for expanding South-South cooperation. These ideas are contained in the Caracas Programme of Action on Economic Cooperation among Developing Countries (A/36/33), the Action Programme for Economic Cooperation of the Movement of Non-Aligned Countries, the initiative of the Group of Fifteen, the Buenos Aires Plan of Action for Promoting and Implementing Technical Cooperation among Developing Countries, 1/ the report entitled The Challenge to the South: the Report of the South Commission, 2/ especially the report's programme of priority action for South-South cooperation, various recommendations of the UNCTAD Trade and Development Board and of the Conference itself, among others.

6. The General Assembly's call, in its resolution 49/96, for recommendations on substantive issues and practical modalities for strengthening South-South cooperation is a clear indication that the objectives of these initiatives have not always been realized. Closer attention needs to be given therefore to the impediments that may have stood in the way of realization of such objectives. In doing so, it would be useful to consider some basic lessons from South-South cooperation experiences.

B. Learning from experience

7. There is much more experience with formal subregional and regional economic cooperation and integration schemes of developing countries than with interregional (South-South) cooperation arrangements, but the lessons drawn from the former are none the less generally applicable to the latter. One of the important lessons to be learned is that efforts aimed at cooperation should not seek to embark immediately on ambitious schemes of broad and general scope on various points at the same time. Experience demonstrates that attempts to undertake extremely ambitious actions are, as a general rule, counterproductive in any efforts to achieve cooperation among the participating countries. What tends to be the more successful approach in the long run is cooperation based on the gradual and progressive execution of actions to promote programmes and projects for the joint development of economic activities. Wherever appropriate, these activities should also be limited both in coverage and number of participating countries and they should respond to or reflect a desire on the part of the developing countries concerned to work together to take maximum advantage of the potential resources that they possess. There is scope for multilateral South-South cooperation involving all the linkages that are foreseen and all developing countries, as is the case, for example, in the Global System of Trade Preferences, but a multilateral approach to South-South cooperation should also emphasize the strengthening of more limited initiatives involving groups of countries with common interests, provided that care is taken to ensure that such initiatives do not adversely affect the vital interests of other developing countries and provided also that there is enough flexibility in the arrangements to enable other countries to join in the initiative when they are able to do so.

8. Experience has shown that at the subregional and regional levels, South-South cooperation schemes should start modestly and with a minimum set of instruments that are applied with the greatest degree of flexibility possible. As in the case of regions and subregions, efforts should be made at the interregional level to develop actions with modest objectives in particular sectors, including actions based on concrete programmes and projects. Such arrangements will involve countries in different regions of the developing world, sometimes with different interests arising from differences in their levels of development backgrounds and historical experiences. It is important therefore that great flexibility, creativity and innovativeness is exercised in their conceptualization, design and implementation. This is only to recognize and accept that there are many different levels of intensity of cooperation and the level at which each country enters a scheme of cooperation will be determined in terms of its own national interest.

9. Another lesson that can be learned is that existing machinery for promoting and managing South-South cooperation at the global level is both deficient and cumbersome to the point where many developing countries find it difficult to cope. There is a need for simplification but there is an even greater need to avoid duplication both in respect of subregional and regional arrangements and in international forums. In respect of the former, the need has been stressed for greater attention to be given to the streamlining and rationalization of regional arrangements, 3/ while in respect of the latter recent poor attendance at meetings may not reflect lack of interest as such, but rather the enormous costs developing countries face in attending meetings. 4/

10. In the context of rationalization and simplification and of enhancing the effectiveness of South-South cooperation at the global level, some further considerations might merit the attention of developing countries, as outlined below.

C. The Movement of Non-Aligned Countries and the Group of 77

11. An important action emerging out of the Eighth Meeting of the Intergovernmental Follow-up and Coordination Committee of the Group of 77 on Economic Cooperation among Developing Countries, held at Panama City from 30 August to 3 September 1993, 5/ was the suggestion that the Chairmen of the Group of 77 and the Coordinating Bureau of the Movement of Non-Aligned Countries should continue to be invited to each other's meetings. The Intergovernmental Follow-up and Coordination Committee also recommended harmonization and integration, wherever possible, of the Caracas Programme of Action and the Action Programme for Economic Cooperation and it endorsed the proposal of the summit meeting of the Movement of Non-Aligned Countries held at Jakarta in 1992 to establish a joint coordination committee to enhance collaboration and avoid duplication of efforts between the Movement of Non-Aligned Countries and the Group of 77.

12. Developing countries will need to consider whether harmonization and collaboration by themselves are sufficient conditions to ensure effectiveness, bearing in mind that within the Group of 77 alone, for example, existing machinery includes meetings of the Group of 77 chapters, of experts, the Intergovernmental Follow-up and Coordination Committee, national focal points for economic cooperation among developing countries and inter-sessional meetings, among others. These meetings might be useful in principle but it might also be possible that their sheer number and the effort required both to service and attend them imposes a heavy burden on the vast majority of developing countries, thereby detracting from their effectiveness because of their level of participation. While there may be political imperatives to the contrary, there may also be need to stress the value of merging and not merely harmonizing and coordinating the programmes of the Movement of Non-Aligned Countries and the Group of 77. 6/

D. Dynamic and changing demands of South-South cooperation

13. There is a need for a conscious recognition of the dynamic and changing demands of South-South cooperation and the needs of individual developing countries in this regard. For example, the imperatives of a number of developing countries that have undergone high rates of economic growth over the years have changed dramatically. Some of them are already in the category of developed countries by certain criteria. The fact of evolution from the developing to the developed world is now seen as finite. The texture and composition of the developing world is dynamic, not constant, and the demands and needs of developing countries must change with development.

14. A conscious recognition of such factors would help developing countries evolve new and appropriate strategies for South-South cooperation which correspond to new realities for countries with different developmental needs, and thereby serve them better. This would also help to impart a practical orientation to South-South cooperation by discarding any outdated notions about, and approaches to, South-South cooperation, and by updating the political momentum of earlier years, which had its genesis in a vastly different political and economic environment.

E. Organic growth of South-South cooperation

15. South-South cooperation must be helped to grow organically. Apart from institutional efforts for economic cooperation among developing countries and technical cooperation among developing countries, such as the Caracas Programme of Action and the Action Programme for Economic Cooperation, developing countries and international organizations should make renewed efforts to create conditions in which South-South cooperation should grow organically. Essentially, the actors for operational economic and technical cooperation among developing countries are in the business sector, whether State-owned or private, and whether through chambers of commerce and other business associations or individually. International, interregional, regional and subregional organizations, along with organizations of the United Nations system, should make renewed efforts to promote such cooperation in every way that would help create conditions in which South-South cooperation was not merely a matter between Governments but benefited from the participation of all economic actors that had a contribution to make. Such promotional efforts should include carefully structured meetings of chambers of commerce and other business organizations. This would provide a meeting ground on a multilateral plane for ideas and joint action among representatives of enterprises from different developing countries and between them and Governments. The enterprise sector will need to be part of the process both in the formative and negotiation stages of a cooperation programme or project, bearing in mind that any successful strategy for strengthening South-South cooperation must contain instruments to mobilize the financial, managerial and technological capacities of the private sector. 7/

III. INSTITUTIONAL ASPECTS OF SOUTH-SOUTH COOPERATION

A. Political support

16. In his preface to the report of the South Commission, the Chairman of the Commission wrote:

> "We do, however, recommend an expansion of South-South cooperation, and it is obvious that when a group of countries have decided to work together, within an agreed framework they need to give continuing political support and to allocate sufficient human and material resources for the work to be carried through efficiently and expeditiously". 2/

17. That there is strong political support for South-South cooperation is confirmed by the many resolutions and decisions emanating from forums of various developing countries, including the Group of 77, the Movement of Non-Aligned Countries, the Group of Fifteen and others. Such support is also reflected in the decisions, resolutions and recommendations of a variety of regional and international forums, including the General Assembly 8/ and its subsidiary bodies. Yet the continuing low level of South-South cooperation activities, especially at the global level, 9/ would suggest that there are major problems translating these decisions, resolutions and recommendations into operational and effective programmes and projects. Many reasons can be advanced for this poor record, among them that South-South cooperation is at its most dynamic when the international economic environment is conducive to growth and development in developing countries and that this has hardly been the case since, for example, the launching of the Caracas Programme of Action in the early 1980s. According to this argument countries have tended to look inwards for solutions to the problems that they face even though there is recognition of the value of joint and coordinated action, especially during periods when countries are experiencing difficulty in their external sectors. Besides, unilateral action taken to address a particular domestic economic problem can sometimes have quite damaging effects on partners in South-South cooperation activities and on the cooperation scheme as a whole. It is in recognition of this possibility that there have been increasing calls that structural adjustment programmes should not lose sight of the regional dimension.

18. Many believe, however, that at least as important a factor in this poor record of achievement is the absence of effective mechanisms at the national, regional and international levels for the identification, preparation and implementation of South-South programmes and projects. 10/ Whatever the expressed political commitments of Governments to South-South arrangements, machinery for the implementation and enforcement of decisions remains deficient and there is a discrepancy between the objectives put forward and the means to realize these objectives. 11/

B. National level

19. At the third meeting of national focal points for economic cooperation among developing countries, which was held within the framework of the Eighth Meeting of the Intergovernmental Follow-up and Coordination Committee, it was

observed that the system of national and sectoral focal points for economic cooperation among developing countries had not functioned effectively since the adoption, in May 1981, of the Caracas Programme of Action. 12/ Moreover, the situation as regards arrangements for technical cooperation among developing countries is hardly better. 13/

20. Recognizing this problem and with a view to assisting countries in addressing the question of implementation at the national level, the UNCTAD secretariat carried out case-studies on Malaysia, Venezuela and Zimbabwe. These studies and other available information show that notwithstanding the impressive performance of the three countries in respect of economic cooperation among developing countries and the fact that many developing countries members of the Group of 77 have established a national focal point for economic cooperation among developing countries, there is generally no established institutional framework specifically entrusted with the task of managing economic cooperation among developing countries. This deficiency is often compounded by the absence of a clearly articulated national policy on South-South cooperation. A coherent national policy would enhance the managerial capability on economic and technical cooperation among developing countries within government and could enable developing countries to take maximum advantage of their participation in cooperation activities and speed up the implementation of relevant decisions and programmes. Such policy and machinery could deal with coordination, monitoring, following up, evaluation and reporting on decision-making and on implementation, and also highlight the consideration of policy issues in their subregional, regional and interregional cooperation and integration contexts.

21. Furthermore, there is need for developing countries to formulate national policies on South-South cooperation in order to see how developments in one country can be linked with those in other countries and to formulate and implement at the national level the policies that would enable each country to take maximum advantage of the possibilities to which South-South cooperation give rise. This means that the location of the institutional arrangement within the government structure for South-South cooperation and, therefore, the influence that it can bring to bear on national decision-making processes becomes crucial. 14/

22. The arrangement will need to be properly staffed and provided with appropriate resources in the government budget to enable it to function effectively as the Government's main intellectual and technical resource on South-South cooperation and as a link between government on the one hand and the private sector and non-governmental organizations on the other, because the active involvement and participation of the latter in both the formulation and implementation of South-South cooperation activities has become indispensable.

23. Regardless of the level - subregional, regional or interregional - at which cooperation is taking place, the question of all countries having appropriate and efficient national machinery is of the utmost importance. Experience to date is that the absence of effective national machinery constitutes a most serious obstacle both to the adoption of decisions of regional and interregional organs and to their prompt and efficient implementation.

C. Subregional and regional levels

24. At the subregional and regional levels, responsibility for initiating and implementing projects and programmes for cooperation often resides in the secretariats of the respective organizations. 15/ As regards integration schemes, an important function of these secretariats should be the encouragement of a process of convergence between national development processes of the member States in order that national development policies and integration policies are developed in a mutually consistent manner. Schemes for market and production integration are unlikely to succeed unless they are designed in a way that provides for careful reconciliation of individual national interests with those of the group as a whole. Likewise, national policies to increase local production, including services, for the regional market and to gear the national economy to interregional trade and other transactions need to take fully into account the strategies, policies and objectives of the integration process as a whole. This suggests that integration groupings also need to set up systems that provide for regular consultations among member States on economic policy, and for policy coordination.

25. Another important role for central secretariats is the identification of new common goals and interests and new forms of joint activities. To the fullest extent possible these might also be represented jointly in negotiations with external entities, whether they be third countries, groups of third countries or private-sector organizations. The point is particularly important at this period of interdependence which has produced a proliferation of meetings and organizations at both the South-South and North-South levels. The consequence is that the transactions and information costs of regional and international cooperation have increased considerably. International technical assistance and perhaps even more significantly, technical cooperation among developing countries, have a role to play in assisting developing countries and their groupings in meeting the information and transactions costs associated with cooperation programmes, but the ultimate responsibility rests with the participating countries themselves.

26. The need for coordination, and joint representation wherever possible, is greatest in the case of relatively less advanced countries and their groupings, but it is a need that is present in most developing countries and groupings and is probably the major cause of the lack of follow-up, implementation and effectiveness of programmes and projects.

27. An action which developing countries might also consider taking to increase the effectiveness of South-South cooperation arrangements is the rationalization of the great multitude of subregional and regional arrangements that now exist, 16/ some of them with overlapping mandates. This raises problems of itself, about wasteful duplication and unnecessary rivalry and suspicions between organizations. The problems which overlapping membership creates are seen at their most acute where a given country has entered into commitments to more than one subregional grouping, with the commitments to one grouping not being in harmony with, but in conflict with, commitments to another grouping. But it also raises serious problems for donors and technical assistance agencies that do not wish to be seen to be "taking sides". 17/

D. Global level

28. The need has been stressed for a permanent machinery to service the South not only in matters relating to South-South cooperation but also in North-South dialogue. A start has been made with a small "core of assistants" to the Chairman of the Group of 77 in New York and a South Centre has been established in Geneva. But these structures are inadequate to meet the requirements of the day. The South needs a permanent machinery to formulate and develop options, prepare negotiating positions, service negotiations, follow-up work on both North-South and South-South issues and act as a framework for consultation on various issues on a permanent basis.

29. In addition, such permanent machinery would be used to identify areas of common interest and possibly joint action at the international level, as also specific areas and indeed specific projects for South-South cooperation, and to identify the support needed at the governmental level. It would also assist countries on request in measures being taken towards liberalization and globalization of their economies, and advise on the manner in which the change in specific situations should be managed. It would be an appropriate forum for interactions at the international level, providing ideas for concrete action in the light of changing circumstances. Technical cooperation among developing countries would have an important role to play here, since developing countries would have much to learn from the experience of others. The following are indicative of the subjects and issues which the permanent machinery would address:

(a) Areas that need common or joint action among developing countries at the international level in specific fields of activity;

(b) Areas of comparative advantage and how to maximize that advantage for developing countries and what measures might be needed beyond the time when that comparative advantage might no longer be available because, for example, of technological changes;

(c) Measures for strengthening the capacities of individual developing countries to deal with situations specific to them, in the light of the experience of other developing countries in similar situations, for example, in debt management, poverty alleviation, the environment, etc.;

(d) Macroeconomic policies for liberalization and globalization; concomitant external financial management, including investment and portfolio flows; and management and operation of capital markets, etc.;

(e) Support measures at the national level for more rapid industrialization. Developing countries could learn a great deal here by analyses of the "success stories" of other developing countries and by exchanging experiences;

(f) Diversification from commodities and lower-scale manufactures into more value-added and knowledge-based industries, involving the acquisition of new skills; and dealing with the far-reaching social consequences of such change;

(g) The promotion of databases in support of South-South cooperation, which has been suggested time and again by developing countries in forums of both the Movement of Non-Aligned Countries and the Group of 77, especially a database such as the South Investment Trade and Technology Data Exchange Centre (SITTDEC) proposed by the Group of Fifteen (see para. 35), and soliciting external support for such databases;

(h) Encouraging and supporting the business sector to take up concrete operational South-South projects that will have been identified jointly;

(i) Encouraging at the national, subregional, regional and interregional levels the implementation of projects such as those adopted by several countries under the auspices of the Group of Fifteen.

30. An area where the need for such machinery will be felt in future concerns participation in the work of the World Trade Organization where joint intensive preparatory work involving countries with common interests will be an essential precondition for effective participation in negotiations. Such countries will need to consult among themselves and reach prior agreement on their negotiating objectives in terms both of the benefits they seek to obtain and on the concessions they are prepared to offer in exchange. The research and policy analysis work which these activities require cannot appropriately be entrusted to any one Government. Yet existing global arrangements are inadequate for these tasks. The contrast between what is available to the OECD countries through their Paris-based secretariat and what currently exists for the benefit of developing countries in New York and Geneva is striking. Developing countries are not in a position even to approximate OECD countries in levels of spending but the gap should not be as wide.

31. The United Nations system, especially UNCTAD, the regional commissions, UNDP and other organizations, including those of developed countries, have an important role to play in providing technical assistance on aspects of both South-South and North-South cooperation. UNCTAD, in particular, needs to be equipped to play a bigger role than it has in the past, in conducting policy research on both sets of issues and to liaise in this respect with other United Nations departments and agencies.

IV. SUGGESTIONS FOR JOINT ACTION

A. Responding to current issues

32. As indicated earlier (see paras. 5-10), extremely ambitious schemes of cooperation tend to be counterproductive, as also are schemes whose objectives are not very clear or that do not address the vital concerns of the participating countries.

33. On the international economic scene there are a few issues that now seem greatly to occupy the attention of all developing countries as revealed by the current literature. 18/ These issues derive from the fundamental changes taking place in the world economy as manifested in growing globalization and liberalization and the actions being taken by both developed and developing

countries in response to these changes. Joint appropriate responses to these developments would probably be of interest to a majority of developing countries and command widespread support. The following is no more than an indication of some of the practical action-oriented projects and programmes on which developing countries might consider taking joint action and whose implementation would greatly strengthen South-South cooperation.

B. Information and communication

34. Information and communication have emerged as essential conditions for participation in the world economy. Yet few developing countries have access to the enormous store of information that the new telecommunications technology makes available for the conduct of economic and trade policies. A project to create a system that would provide vital economic information to developing countries promptly would be extremely complex and costly. However, the benefits of such a system would be so important that they would justify the effort needed to translate the idea into a reality.

35. This idea has in fact been suggested time and again by developing countries, both in the Movement of Non-Aligned Countries and the Group of 77. Among the Group of Fifteen, a relatively recent initiative was the SITTDEC, which was launched in 1990 with Malaysia as the host country. The Centre was designed to be linked to national focal points with a view to collating relevant information and providing information to developing countries members of the project. While the host country has provided a considerable outlay for the project, very little has been forthcoming from other developing countries.

36. It would obviously be desirable to draw upon the experience of existing databases which might be relevant, and to build upon that experience. This includes databases with international organizations such as the Trade Analysis and Information System (TRAINS) of UNCTAD. TRAINS is intended for use by policy makers and economic operators and its components include the UNCTAD database on trade control measures, which covers tariff, paratariff and non-tariff measures. The latter contains elaborated information on the Generalized Scheme of Preferences (GSP) and enables easy access to full details of GSP schemes. TRAINS also includes the IMPORTERS database of the International Trade Centre UNCTAD/GATT which contains details of selected product categories and markets.

37. Databases to promote South-South cooperation would need sustained and substantial technical and financial support to make them viable and useful for developing countries. By their very nature, this would involve continuous updating to ensure their utility. International organizations should assist developing countries, at their request, in setting up functional databases containing information on trade and on economic capacities in developing countries which could assist in South-South cooperation. The emphasis must be practical. In rendering such assistance, international organizations should draw upon institutions and individual talent in developing countries making use to the maximum extent possible of technical cooperation among developing countries modalities. It would also be desirable for developing countries to make a realistic estimate of the inputs over several years and to plan

accordingly. Appropriate assistance could be provided by international organizations and by developed countries.

C. Global System of Trade Preferences among developing countries

38. The second round of negotiations on the Global System of Trade Preferences is well advanced and is expected to lead both to a significant extension of the product and country coverage of the system as well as to its deepening in terms of the depth of tariff cuts, its treatment of non-tariff measures and to its incorporation of a range of direct measures whose accumulative effects should have a significant impact on mutual trade.

39. Consideration might also be given to concluding preferential or cooperation agreements in as many as possible of the areas and topics that were covered in the Uruguay Round negotiations, the object being, as far as possible, to negotiate arrangements among developing countries not only in respect of tariffs but also in the various other areas that impact on trade, particularly those in respect of which concessions were made in the Uruguay Round negotiations.

40. These would involve totally new areas in the context of South-South cooperation. If developing countries were to decide to pursue these issues, it would be necessary to proceed only after detailed technical work had been done in identifying and analysing possible new areas for extending preferences or concluding cooperation agreements among developing countries, the sectors in which these might apply, the corresponding modalities, the benefits that might be expected to accrue and what countries would be the major beneficiaries. The pursuit of these new areas would therefore require an effort at least as extensive as that required for the conceptualization and the preparatory process of the first round of Global System of Trade Preferences negotiations. 19/ Among the areas that would seem to merit study as potential candidates for preferential arrangements and cooperation among developing countries are services and investments.

D. Services

41. As regards services, the assessment of the Uruguay Round results from the standpoint of their importance for developing countries remains largely inconclusive. However, there are indications of some opportunities for gains for developing countries, even from the relatively limited multilateral liberalization implied by the Uruguay Round agreement on services. These gains would be expected to materialize in terms both of the cost of imported services and the scope for growth of exporting services in line with competitive advantage. But achieving competitiveness in these services activities in which there is comparative advantage might require liberalization of the services sector on a scale that many developing countries might find difficult to achieve in the short to medium term but the same countries could, with less difficultly, expose the domestic services sector to regional competition in the first instance, and gradually opening up to the South as a route by which to achieve international competitiveness in the long run.

E. Investment

42. Developing countries as a whole are adopting a range of measures aimed at mobilizing domestic resources for investments and for attracting foreign direct investment, including portfolio investment. Two main approaches are employed to this end. The first consists of measures designed to improve the investment climate and these measures range from those specifically linked to structural adjustment and privatization programmes to more general measures, including wide-ranging domestic economic policy reforms, the liberalization of existing regulatory frameworks and adoption of new ones that are more friendly to foreign direct investment, the simplification of administrative procedures applicable to foreign investors, the conclusion of bilateral investment protection and promotion treaties and accession to various multilateral treaties facilitating the flows of foreign direct investment. 20/ These efforts need to be continued and even intensified in those countries where investment flows continue to be low because the countries are, as yet, not considered to be attractive investment locations. Simultaneously, the scope and strategies for stimulating investments both South-South and North-South need to be the subject of ongoing study and analysis.

43. The second set of measures that countries employ as part of the effort to become attractive to investors consists of the granting of investment incentives. In this area there is considerable scope for cooperation both within the framework of subregional and regional schemes and at the South-South level.

44. Efforts to attract foreign direct investments through the granting of incentives are successful only to the extent that they attract investments to one country at the expense of another country. Implicitly, therefore, the whole rationale for incentives is competition. 21/ In such a competition, the maximum amount that a Government might in principle be prepared to offer to attract an investment may be more than can be justified based on the net benefits to accrue from the investment. In other words, in the absence of cooperation, Governments could overbid for an investment and, by the same token, a prospective investor could well play off one Government against another in order to raise the bidding. 21/ In all such circumstances it is the poorest of the developing countries or regions that are the most disadvantaged.

45. The role of incentives in influencing foreign direct investment flows should not, however, be overemphasized. The surveys available 21/ show that incentives are among the least important of the locational determinants of foreign direct investment. Other factors, including political stability, currency convertibility, supply situation and market share, are far more important. Even so, and also because of the potential for distortions that unrestricted competition for foreign direct investments can have, at least one grouping of developing countries (the Caribbean Community (CARICOM)) has found it useful to introduce a scheme of harmonization of fiscal incentives to industry which aims at limiting rivalry for the location of industrial activity. 22/ Among developed countries, OECD in 1976 adopted the Declaration on International Investment and Multinational Enterprises and in 1984 a second revised decision on international investment incentives and disincentives was adopted in which, inter alia, it was agreed that:

(a) Consultations would take place in the framework of the Committee on International Investment and Multinational Enterprises at the request of a member country, which considered that its interests might be adversely affected by the impact on its flow of international direct investments of measures taken by another member country that provided significant official incentives and disincentives to international direct investment. Having full regard to the national economic objectives of the measures and without prejudice to policies signed to redress regional imbalances, the purpose of the consultations would be to examine the possibility of reducing such effects to a minimum;

(b) Member countries should supply, under the consultation procedures, all permissible information relating to any measures being the subject of the consultation;

(c) The Committee might periodically invite the Business and Industry Advisory Committee to OECD and the Trade Union Advisory Committee to OECD to express their views on matters relating to international investment incentives and disincentives and should take account of those views in its periodic reports to the Council. 23/

46. Furthermore, at a high-level meeting of officials of investment promotion agencies from both developed and developing countries at Geneva in April 1995, held under UNCTAD auspices, agreement was reached to establish a World Association of Investment Promotion Agencies, whose objectives would be:

(a) To promote and develop understanding and cooperation amongst investment promotion agencies;

(b) To strengthen information gathering systems and information exchange amongst investment promotion agencies;

(c) To share country and regional experiences in attracting investment;

(d) To assist investment promotion agencies to gain access to technical assistance and training through referrals to relevant agencies;

(e) To facilitate access to funding and other assistance, through referrals to relevant bilateral and multilateral agencies, for the development and implementation of investment promotion programmes.

47. Thus it is clear that there is a demand for cooperation at all levels on investments, whether with the primary aim to attract investments per se or with a view to limit unnecessary competition. Both objectives can be realized at the subregional/regional level through the establishment of appropriate mechanisms which could range from schemes of harmonization of incentives, as in the case of CARICOM, to the introduction of consultative machinery as is the case in OECD and as is now proposed for the investment promotion agencies. At the South-South level, cooperation could cover a broad area, or it could be limited to more extensive use of the technical cooperation among developing countries modality through which developing countries or regions with greater experience and knowledge in foreign direct investment matters could assist other developing countries in a variety of ways, including the provision of training.

F. Cooperation in capital markets 24/

48. More and more developing countries are launching initiatives aimed at facilitating and encouraging cross-border investment flows through the establishment and operation of regional stock exchanges or the linking of national stock exchanges.

49. Thus for example, the Caribbean Stock Exchange, established in 1991, provides for cross-border trading in securities among member countries. The Association of Central American Stock Exchanges is planning to establish electronic interconnection and mutual use of their stock exchanges for the custody of deposits from each other. The Ibero-American Electronic Stock Exchange project aims at facilitating the trading in securities of major enterprises in the Ibero-American region and creating a market for raising funds. Other important regional institutions are the Union of Arab Stock Exchanges; the African Stock Exchanges Association (which includes South Africa), established in April 1993; and the East Asian and Oceanian Stock Exchanges Federation (which includes Japan).

50. Regions and subregions that have not already established these markets for securities should consider doing so as a first step towards the liberalization of capital flows on a South-South basis and therefore facilitating South-South investments. A prior requirement, however, would be the removal by individual countries of the range of impediments that currently limit intraregional capital flows, including foreign-exchange controls, legislation and regulations, that discriminate against foreign investors, restrictions on transfers and other direct and indirect measures designed to influence capital flows. Consideration might also be given to instituting these liberalization measures within the framework of a preferential regime in favour of intra-group investors wherever the scope exists. At present, most developing countries apply the same ownership limits on both regional and global investment. 25/ One of the few cases of regional preferences is that of Kuwait, where the general limit is 49 per cent but Gulf Cooperation Council nationals are exempted up to the level of 75 per cent. In the same region, the non-reciprocal preferential scheme of Bahrain confers national treatment on citizens of other Gulf States in ownership and trading in local companies. In the Common Market of the Southern Cone (MERCOSUR), individuals and/or legal entities domiciled in member States are permitted to invest freely on each other's stock exchanges.

G. Social sector

51. This section has provided an indication of the specific activities that might constitute an initial agenda for South-South cooperation in one sector, namely that of trade (including services) and investment. It also suggests an approach that consists of a careful selection of specific activities within the sector, followed by interactions among developing countries on the conceptual plane in the first instance, moving on to detailed technical work involving programme/project preparation, analysis and implementation. A broadly similar approach to the identification and formulation of activities for South-South cooperation would in many cases also be required in respect of the other areas in which developing countries have, from time to time, expressed a wish to

cooperate, as for example in the Caracas Programme of Action and the Action Programme for Economic Cooperation as well as in respect of emerging issues such as environment, poverty alleviation, employment, human resource development, technology, macroeconomic policy coordination and the special needs of Africa, among others.

52. In the field of technology, for example developing countries could enhance technological cooperation among themselves through joint programmes at bilateral, subregional and regional levels. Such programmes could provide incentives to skilled personnel to remain in the region and thus alleviate the problem of the "brain drain" common in many developing countries. In this context, the creation of regional "centres of excellence" might be reconsidered. Another area where joint efforts by developing countries could facilitate technological cooperation would be in the pooling of resources required for establishing, at a regional or subregional level, jointly operated institutes for quality testing, certification and standardization. This would enable countries to avoid unnecessary duplication of resources and broaden the services available to the public and private sectors of cooperating patterns. In the social sector existing programmes of cooperation would need to be expanded and strengthened and new ones established if developing countries are to deal adequately with the many pressing issues of the day, including those that have already been addressed and highlighted by the International Conference on Population and Development, held at Cairo, and the World Summit for Social Development, held at Copenhagen, and which will be addressed by the Fourth World Conference on Women, to be held at Beijing, and the United Nations Conference on Human Settlements (Habitat II), to be held at Istanbul, as well as in the agenda for development to be adopted by the General Assembly.

V. FOLLOW-UP

A. Role of developed countries

53. At the level of OECD, the Development Assistance Committee at a meeting in September 1992 reviewed the development assistance policies of the member countries and considered how best those policies could support cooperation among developing countries. An important result of this meeting was the confirmation of the member countries' new attitude to cooperation among developing countries and their readiness to incorporate aspects of South-South cooperation in their development assistance programmes.

54. Support by the North to South-South cooperation takes a variety of forms, ranging from "partnership dialogues" at the level of subregional and regional groupings of developing countries to support for specific South-South cooperation activities. 26/

55. The form in which this support is given also varies and involves flexible and innovative approaches such as the triangular technical assistance programmes of Japan as well as the range of programmes supported by the European Union and other donor countries. Among the multilateral institutions, the World Bank, which previously took a negative view of formal South-South cooperation, is now actively promoting regional economic cooperation, especially in Africa. 27/

56. South-South cooperation is primarily the responsibility of the South but this message should not obscure the reality of the tremendous role that the North can play in facilitating the process.

57. It is in recognition of this reality that the UNCTAD Standing Committee on Economic Cooperation among Developing Countries at its session in January 1993 established machinery within UNCTAD for North-South consultations on issues relating to support for South-South cooperation. But to enable the machinery to fulfil its purpose great care would have to be taken in the preparation and conduct of these consultations, which might need to go beyond support to South-South cooperation per se and encompass a range of issues that are global in character, such as environmental damage, and wider concerns: poverty; population pressures; large-scale migration across international frontiers driven by conflict; other forms of social dislocation; ecological and economic pressures; crime, especially that caused by narcotics; and terrorism. These are all non-economic areas, which the South needs to tackle in the framework of cooperation because their incidence is not confined to the geographical boundary or jurisdiction of any one country or region. Nor is it confined to the South only. These are global problems requiring global attention and considerable international financing and technical support.

58. International organizations, especially UNCTAD, UNDP and the regional commissions, would have a useful role to play in providing technical backstopping for the identification and preparation of South-South programmes and projects on which consultations take place as well as for the consultations themselves.

B. Role of the international organizations

59. The international organizations, particularly those of the United Nations system, should play an active role in promoting South-South cooperation. UNCTAD, the Special Unit for Technical Cooperation among Developing Countries of UNDP and the regional commissions need to be encouraged and given the resources to play that role.

60. Areas in which they could assist in accordance with their respective mandates would include:

(a) The harmonization of the viewpoints of developing countries at the conceptual level on specific issues pertaining to international economic cooperation; these would include not merely issues at the macro level, but also at the sectoral level involving meetings of experts from developing countries, and more especially practitioners in the disciplines concerned from both the public and the private sector;

(b) North-South interactions on specific issues pertaining to international economic cooperation and South-South cooperation;

(c) Examination and recommendation to developing countries on a continuing basis, in the light of changing circumstances and emerging conditions of specific areas and capacities relating to economic cooperation among developing

countries and to technical cooperation among developing countries for absorbing lessons from the success of other developing countries. For example, learning from the successes of newly industrializing countries and examining whether some of these experiences would be relevant to conditions in other developing countries in prevailing conditions, and identifying specific areas and capacities for economic cooperation among developing countries and technical cooperation among developing countries to this end;

(d) Assisting developing countries technically and financially, at their request, in setting up functional databases containing information on trade and on economic capacities in developing countries that could assist in South-South cooperation processes, drawing upon institutions and technical capabilities in developing countries to the maximum extent possible;

(e) Acting as a watch-dog, at the request of the developing countries concerned, for technologies being transferred from developed to developing countries to ensure that developing countries get a fair deal in respect of the appropriateness of the technology concerned, with an eye particularly to their obsolescence or redundance and their effects on the environment, as well as the economic viability of the project;

(f) Assisting developing countries, at their request, in their investment promotion efforts to the maximum extent possible, in terms of both the amount and the nature of the investments offered.

VI. FUNDING

61. The provision of adequate financing is central to the success of South-South cooperation initiatives. Many developing countries continue to make quite significant contributions, but more needs to be done. However, it would be quite impossible to generate from within the South all the resources that would be needed to meet the funding requirements for strengthening institutions for South-South cooperation at the various levels; for providing for strategic interventions by UNCTAD and other international organizations with mandates to promote and support South-South cooperation; and, equally importantly, for the financing of South-South cooperation programmes and projects for which there is no source of funding at present.

62. As regards institutions for South-South cooperation, developing countries will wish to continue to take responsibility in keeping with the principle of self-reliance but a wide funding gap will continue to exist that will need to be filled from bilateral and multilateral sources. UNCTAD and other international organizations will, however, require larger budgetary allocations if they are to be in a position to give effective support to South-South cooperation. For the financing of South-South cooperation programmes and projects, new options and modalities need to be explored including, for example, increased use of triangular funding arrangements, such as those currently being used by Japan among donors, as well as prospects for attracting private-sector funding.

Notes

1/ Report of the United Nations Conference on Technical Cooperation among Developing Countries, Buenos Aires, 30 August-12 September 1978 (United Nations publication, Sales No. E.78.II.A.11 and corrigendum), chap. I.

2/ New York, Oxford University Press, 1990. For an overview and summary of the report of the South Commission, see A/45/810 and Corr.1, annex.

3/ See, for example, TD/B/CN.3/6.

4/ Prominent recent examples of poor attendance were the attempt to hold a Group of Fifteen summit meeting in India in 1993 and the Eighth Meeting of the Intergovernmental Follow-up and Coordination Committee of the Group of 77 on Economic Cooperation among Developing Countries, in which only 40 countries participated.

5/ See A/C.2/48/5, annex.

6/ The Ministerial Meeting of the Coordinating Bureau of the Movement of Non-Aligned Countries, meeting at Bandung, Indonesia, 25-27 April 1995, recommended as much at paragraph 101 of its communiqué.

7/ Efforts to involve the private sector in certain South-South, especially economic cooperation among developing countries, processes, are however, already well established in UNCTAD. Such efforts have included meetings of trading companies of developing countries; of shipping companies; of commercial banks and exporters/importers, etc.

8/ For the most recent, see resolution 49/96.

9/ South-South cooperation both in its economic and technical cooperation among developing countries aspects has been more vibrant at the subregional and regional levels than on a global scale, but the record even in respect of the former is hardly satisfactory either.

10/ This view is discussed extensively in the report of the South Commission, as also in a report by a group of consultants submitted to the Secretary-General of UNCTAD, entitled "Strengthening the Weakest Link: A Review of Certain Aspects of South-South Trade and Finance" (TD/TAD/INF/PUB/86/2).

11/ See TD/B/CN.3/6.

12/ A/C.2/48/5, annex, para. 76 (b).

13/ See TCDC/9/3, paras. 74-76.

14/ In some countries the focal point for economic and technical cooperation among developing countries is merely a post office. It receives communications from outside and channels them to the substantive departments.

15/ A well-known departure is the Southern African Development Community, where member States have these responsibilities in respect of particular sectors, with the secretariat acting as a coordinating agency. The projects of the Group of Fifteen have also been assigned to individual countries for follow-up.

16/ To some extent overlapping also exists between the Group of 77 and the Movement of Non-Aligned Countries.

17/ Based on responses by selected groupings, see TD/B/CN.3/GE.9/2.

18/ UNCTAD reports TD/B/CN.3/13, TD/B/CN.3/15 and TD/B/CN.3/14, submitted at the third session of the Standing Committee on Economic Cooperation among Developing Countries, 19-23 June 1995, provide a clear indication of the importance attached to these developments.

19/ For the preparatory phase of the negotiations on the Global System of Trade Preferences, the UNCTAD secretariat, with financing from UNDP, carried out an extensive programme of studies on the technical aspects of the system, the framework for the negotiations and related issues. It also gave considerable technical assistance to developing countries and their groupings and provided technical backstopping for the negotiations. A major staff effort, supplemented by outside expertise, as required, was therefore provided in order that the negotiations on the Global System of Trade Preferences could be launched on a sound technical basis.

20/ For a further discussion, see TD/B/ITNC/2 and TD/B/ITNC/3, prepared for the twenty-first session of the Commission on International Investment and Transnational Corporations.

21/ TD/B/ITNC/MISC.1, paras. 31-37.

22/ The CARICOM scheme was agreed to in 1973 and incorporated in the national laws of the member States. It was revised in 1990 for introduction as part of the CARICOM Single Market programme.

23/ Second revised decision of the Council, May 1984, replacing decision C(79)145.

24/ Based on UNCTAD/ECDC/246: the role of regional capital markets in enhancing resource mobilization and in promoting their efficient use.

25/ India (51 per cent), Indonesia (49 per cent), Thailand (25-50 per cent), Cyprus (5-49 per cent), Malaysia (up to 80 per cent), Mexico (up to 49 per cent) and the Philippines (40 per cent in general).

26/ An example of the former is the annual SADC Consultative Conference, and of the latter is the CARICOM Export Development Project supported by the European Union.

27/ TD/B/CN.3/GE.1/3 contains (at pp. 6-21) some information on the assistance provided by Australia, Austria, Canada, France, Germany, Japan, New Zealand, the Nordic countries, Switzerland, the United States of America, the European Union, the United Nations system and multilateral financial institutions. The information is not exhaustive, either in terms of aid volume and types or of countries, and it is compiled from information provided to the UNCTAD secretariat.